



# ASSOCIATION FOR EQUITY IN FUNDING

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*William Vincent, Chair*  
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AEF Website:  
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**EQUITY: Districts which  
spend at the same level per  
pupil will make the same tax effort.**

January 26, 2004

Governor Jim Doyle  
State Capitol  
PO Box 7863  
Madison, WI 53707

Dear Governor Doyle:

Enclosed is a copy of the 2004 Legislative Proposal of the Association for Equity in Funding (AEF). As in the past we have proposed changes that would clearly comply with the educational standard set by the Wisconsin Supreme Court in *Vincent vs. Voight* and provide an equal opportunity for a sound basic education for every Wisconsin student. That education must be sufficiently comprehensive to enable every child to become personally and economically successful. And the additional educational needs of disabled students, economically disadvantaged students and students with limited English language skills must be taken into account.

AEF proposes to provide an equal opportunity to a sound basic education by equalizing school district access to state and local revenue. We suggest meeting the additional educational needs of the three populations identified in the standard by providing additional funding through pupil weighting systems that reflect both population changes and inflation.

We also suggest three minor changes from our proposal of a year ago to address specific legislation enacted in the past year. We would propose to increase both the low revenue ceiling and the secondary cost control to 90% of the average per pupil shared cost in the prior year. And we would propose a separate source of funding for charter schools in lieu of general school aid.

Enactment of the AEF Legislative Proposal would comply with our educational standard, reduce spending and taxing disparities among school districts, more fairly spread the property tax burden of K-12 education and maintain the present level of local control. Of course, I would be pleased to discuss this proposal with you in greater detail at any time.

Sincerely yours,

Doug Haselow, Executive Director  
Association for Equity in Funding

Enclosure

# 2004

## **PROPOSAL FOR LEGISLATIVE ACTION TO ACHIEVE EQUITY IN SCHOOL FUNDING**

**by the Association for  
Equity in Funding, UA**



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### **PROPOSAL PREPARED BY AEF STEERING COMMITTEE:**

William J. Vincent, Chair  
Karen Drazkowski, Secretary  
William Loasching, Treasurer  
James Friesen  
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West Salem School Board  
Seymour Community School District  
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Menomonie School District  
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Mishicot School District  
Milwaukee Public Schools  
Beloit School District  
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Racine School Board  
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## Wisconsin Educational Standard

Wisconsin students have a fundamental right to an equal opportunity for a sound basic education. An equal opportunity for a sound basic education is one that will equip students for their roles as citizens and enable them to succeed economically and personally...An equal opportunity for a sound basic education acknowledges that students and districts are not fungible and takes into account districts with disproportionate numbers of disabled students, economically disadvantaged students and students with limited English language skills.

Wisconsin Supreme Court  
July 2000

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or visit the AEF website: [www.waef.net](http://www.waef.net)

# EXECUTIVE SUMMARY

**T**he Association for Equity in Funding, UA (AEF) is a group of state school districts that seeks financial equity in the state system of school financing. The members include large, urban districts such as Milwaukee, Green Bay, Racine and Beloit, as well as small, rural districts, such as Algoma, Tigerton and Weston.

The two issues that brought this group together and have kept it together were the wide differences in the amount school districts were able to invest in the education of their children and the even wider differences in the property tax burden to pay for that investment. This 2004 Legislative Proposal addresses those issues.

In recent years two major state policy changes (revenue limits and 2/3 state funding) have been implemented. In addition the State Supreme Court has established a new educational standard which provides:

"Wisconsin students have a fundamental right to an equal opportunity to a sound basic education...that will equip students for their roles as citizens and enable them to succeed economically and personally."

The Court also specified courses to be provided and required that "...districts with disproportionate numbers of disabled students, economically disadvantaged students, and students with limited English language skills..." be taken into account. The effect of this decision is to demand that the legislature revise our school finance system to assure that every child has an equal educational opportunity.

The obvious question is what has been the result of these policy changes and the new standard? The answers are disappointing.

Concerning revenue limits, some state officials claimed that per pupil spending differences would be narrowed because all districts would increase their spending by the same amount each year. AEF's analysis found that it would take more than 100 years for the lowest spending district to reach 90% of the per pupil amount in the highest spending district.

In absolute terms, the spending gap has widened since 1993-94 (first year of revenue limits). By 2002-03 the amount spent in the highest spending district had increased by \$6,458 per pupil, which was 219% of the state average increase, and the increase in the lowest spending district was only 74% of the average. In 2002-03 the complete annual school cost per student ranged from \$6,924 to \$18,077 with an average of \$9,625. Relatively, things are about the same as the lowest spending district in 2002-03 spent 38% of the amount spent in the highest spending district, down from 41% when revenue limits were adopted (see Table 1).

During the same period school tax burden differences have widened relatively. While school property tax rates declined when the state increased its aid levels, the formula distortions which accompanied the aid increase helped to keep the tax burden differences from narrowing. In 2002 property tax rates per thousand dollars of valuation ranged from \$2.79 to \$15.60 with a K-12 average of \$9.73. The bottom line is that in the past nine years the tax rate in the lowest taxing district has declined 48%, or

**Table 1: Complete Annual School Costs** Changes from 1993-94 to 2002-03

	1993-94	2002-03	1993-94 to 2002-03 Increase	Increase as % of Average
Highest per Pupil Complete Annual School Costs	\$11,619	\$18,077	\$6,456	215%
Lowest per Pupil Complete Annual School Costs	\$4,758	\$6,924	\$2,166	74%
Average per Pupil Complete Annual School Costs	\$6,681	\$9,625	\$2,944	100%
Lowest as % of Highest	41%	38%		

2% more than the state average. And the highest taxing district now pays a tax rate of 559% of the lowest, up from 505% nine years ago (see Table 2).

**Table 2: School Property Tax Rates**  
Changes from 1993-94 to 2002-03

	1993-94	2002-03	% Change
Highest	\$30.00/M	\$15.60/M	-48%
Lowest	\$5.94/M	\$2.79/M	-53%
Average	\$17.91/M	\$9.73/M	-46%
Highest as % of Lowest	505%	559%	

Concerning our new educational standard, little has changed. The recently adopted state budget (2003-05) raised the low revenue ceiling to \$7,400 in 2003-04 and \$7,800 in 2004-05. The Governor has created a Task Force on Educational Excellence which is expected to complete its work by Spring, 2004.

For now we continue to have a school funding system that does not provide an equal educational opportunity for our children; does not meet the additional needs of the three student populations identified in our new standard; and does not provide a fair and equitable school tax burden for property owners.

Regardless of the level of state aid, the continued reliance on local wealth means property-poor districts must continue to tax their residents at higher rates to obtain the same dollar amount for each pupil. Disqualifying state aid payments continue to increase.

Many school districts have disproportionately high numbers of children who need additional help such as children with disabilities, children from backgrounds of poverty or children of limited English proficiency. The recent Court decision requires that the legislature take these children and districts into account in our school finance system. To date, the needs of these populations have not been well or completely addressed.

In recognition of the continuing financial disparities among school districts and taxpayers along with the legislature's failure to address the elements of our new standard AEF will continue to narrow its legislative focus. This legislative proposal will attempt to accomplish the following two general goals in the school finance system:

- (1) equal access to state and local revenues for all districts so that the cost of money to invest in K-12 education is the same for all children in all districts; and
- (2) additional funds to meet the additional needs of the three student populations cited in our new standard on a continuing basis which takes account of the cost of serving those populations and inflation.

*It is imperative that the current inequities be addressed so that all school districts in our state have the resources to provide an equal opportunity for a sound, basic education for their children. AEF believes that everyone in the state of Wisconsin — those who know the importance of a good education as well as those who believe in fiscal responsibility — will understand that these changes are appropriate and equitable for our children and taxpayers.*

# ASSOCIATION FOR EQUITY IN FUNDING

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**T**he Association for Equity in Funding believes:

- Public education is a function of the state. It is the legislature's responsibility as identified by our State Constitution to provide for "the establishment of district schools that are as nearly uniform as practicable." The Supreme Court has decided that it is also the legislature's responsibility to provide an equal opportunity for a sound basic education for all children that will equip them to become personally and economically successful and to take into account student populations with additional educational needs.
- Educated citizens contribute to the well-being of the society, and educated citizens are more economically self-sufficient. We are a mobile society. Our children may be educated in one place and spend their lives in another. It is vital that every child in our state be given an equal educational opportunity regardless of where they happen to live.
- Financial equity is crucial in the pursuit of excellence in education, as there is a positive correlation between the quality of education and the funding available.
- The current funding system does not assure equal ability for all school districts to support education equitably for all children. A property rich school district in Wisconsin is currently able to raise more revenue to invest in the education of its children than a property poor district when both are applying the same tax rate.
- The current funding system results in wide disparities in the burden on property owners for financing schools. The state should assure an equitable tax effort for property taxpayers to provide resources for the education of our children.
- The major role of the state equalization aid formula is to compensate for the vastly differing abilities of local school districts to pay for education based on their respective district's property tax base per pupil. It is this wide variation that must be narrowed by the legislature so that the allocation of state aid to school districts is truly equalizing for all children and property taxpayers.
- The issuance of property tax credits to individuals is a matter separate and distinct from the financing of public schools. Direct credits to property taxpayers are not part of the school finance system, as they are not paid to school districts to finance school operations. Relief to individuals should be provided through means separate from the school finance system (direct credits to individuals), and aid to school districts should be distributed through the school equalized aid formula.
- In order to improve equity among school districts, state limits on school district costs or revenues should cause per pupil spending disparities among districts to narrow rather than allow them to widen or continue at the present level of disparity.
- A fair system would establish a guaranteed tax base for every pupil which would result in equal tax effort to fund equal expenditures per pupil. School districts with the same per pupil cost would make the same tax effort.

# STATEMENT OF PROBLEM

Even though Wisconsin's Constitution calls "...for the establishment of district schools which shall be as nearly uniform as practicable...", the Association for Equity in Funding believes there are three main reasons why the schools are not uniform. Desequalizing factors in our school finance system continue to increase and it is difficult to understand how children can receive an equal opportunity for a sound basic education when districts are becoming less uniform. Those desequalizing factors need to be revised or eliminated in order to make schools more uniform and enable all districts to provide an equal educational opportunity.

## ■ Variation in Local Property Wealth

Throughout the state there is a wide variation in the amount of public funds invested to educate our children. And there is a wider variation in the property tax rates paid by property owners to support public schools.

K-12 budgets per pupil for 2002-03 range from \$7,792 in Burlington to \$15,657 in Phelps (a high/low ratio of more than 2 to 1) and the state average was \$9,625. K-8 budgets range from \$6,924 in Raymond #14 to \$18,077 in Lac du Flambeau #1 (a high/low ratio of more than 2.6 to 1).

K-12 property tax rates ranged from 2.79/M in Gibraltar to 15.60/M in Independence (a high/low ratio of almost 5.6 to 1) and the state average was 9.73/M. And the K-12 district that spent the most (Phelps) had a lower tax rate than the K-12 district (Burlington) that spent the

least. Further, the district with the lowest property tax rate (Gibraltar) spent more money per pupil than the district with the highest property tax rate (Independence).

These disparities highlight a growing concern about the lack of fairness in the funding of elementary and secondary education in Wisconsin. Because the system still depends on local property wealth as a major source of funding, the wide variation in the property tax levels cannot be ignored. Its cumulative impact will be played out in classrooms and in the lives of students as they grow up.

## ■ Desequalizing Payments

Other school aid programs that do not consider relative property wealth have contributed to the problem. All districts receive extra money for specific programs (such as special adjustment aid, school levy tax credits, categorical aid and integration aid), regardless of wealth or tax effort. This off-formula funding tends to distort the equalizing aspects of the school aid formula and give more money to property wealthy districts.

For instance, the table below shows a significant and *increasing* overall state expenditure for desequalizing factors in school funding (See Glossary for additional explanation).

Distribution of funds in these programs ignores the variation in the tax base behind each pupil. All desequalizing factors should be eliminated, and aid payments to school districts should be equalized.

## Multi-Year Summary of Desequalizing Aids & Credits

Desequalizing Factors (millions)	1998-99	1999-00	2000-01	2001-02	2002-03	Est. 2003-04*
Primary Aid Hold Harmless	\$16.6	\$16.3	\$15.2	\$15.2	\$13.0	\$2.7
Special Adjustment Aid	\$6.2	\$0.6	\$1.7	\$1.6	\$4.7	\$14.7
Integration Aid	\$79.9	\$83.4	\$84.3	\$84.3	\$82.4	\$86.6
Categorical Aid	\$403.3	\$419.7	\$427.2	\$428.9	\$488.7	\$517.5
School Levy Tax Credit	\$469.3	\$469.3	\$469.3	\$469.3	\$469.3	\$469.3
Recapture (Negative Aids)	\$106.8	\$108.8	\$117.8	\$127.3	\$145.4	\$169.6
<b>Total</b>	<b>\$1,082.1</b>	<b>\$1,098.1</b>	<b>\$1,115.5</b>	<b>\$1,126.6</b>	<b>\$1,203.5</b>	<b>\$1,260.4</b>

\* Per DPI Excel Spreadsheets containing October certification amounts by tier, 10/02 and 10/03 and LFB Budget

### ■ Special needs, poverty and LEP

Our Supreme Court has directed that districts with disproportionate numbers of children with special needs, children who are economically disadvantaged, and children with limited English language skills be taken into account. The additional educational needs of each of these populations can best be addressed through an equalized pupil weighting which would increase the pupil count for both aid and revenue limit purposes.

Although the Student Achievement Guarantee in Education (SAGE) program is well accepted and attempts to meet some of these student needs, it has not reached some high poverty schools. And it provides no benefit for children in grades 4-12. Consequently, some of our economically disadvantaged children who need additional help are not receiving it.

Categorical aids for disabled children and children with limited English language skills continue to slip away. As separate appropriations both programs were neglected again in the 2003-05 biennial budget. Due to the projected budget deficit these separate appropriations in our current system are likely to be ignored and/or underfunded in the foreseeable future even though our new standard requires that these student populations be taken into account.

### ■ Related matters

During the 1990's we saw a good economy which increased residential property values, produced rising incomes for many and maintained low interest rates. Accordingly, it became easier for some to purchase and improve real estate. One of the results was a greater demand for lake and recreational property and this increased the equalized valuation in many rural school districts. When combined with enrollment declines in some districts, these higher values have led to lower levels of state support and higher local school property taxes.

As a result, some have called for the inclusion of an income factor in the school equalization aid formula. But, there is a better answer to this problem and it is the homestead tax credit program, which helps low income households pay their property taxes.

First, consider there already is some recognition of income and ability to pay in the school finance equation as the state share of school costs comes mainly from state income and sales taxes. Second, consider that public schools essentially have only one source of revenue other than state aid and it is the property tax. Third, our new educational standard requires that economically disadvantaged students be taken into account in the school finance system.

So, what is fair? The state income tax treats us all in the same manner and imposes a lesser burden on low income households. AEF has tried to equalize access to state and local resources through the equalization aid formula so that the school property tax burden would be spread fairly. The Wisconsin Supreme Court has recognized that economically disadvantaged students are likely to need additional help in order to succeed in school. Today we have the SAGE program which partially addresses the new standard, but it does not reach students above third grade and there has been no inflation in the grant amount per pupil since its inception.

Ideally, the legislature would revise the school finance system to provide equal access to state and local revenues and provide inflation sensitive assistance to all economically disadvantaged students. Then the homestead tax credit program, set at an appropriate level, would help to fairly ease the tax burden on low income households. As this is a state taxation issue and not a school finance issue, AEF offers no specific proposal on the Homestead Tax Credit Program at this time. Rather, AEF will continue to focus on the financing of public schools under our new educational standard.

*The Association for Equity in Funding believes its legislative proposal for 2004 provides a realistic action plan to meet the new standard of providing an equal opportunity for a sound basic education for all students regardless of where they may live.*



# 2004 LEGISLATIVE PROPOSAL SUMMARY

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**A**EF proposes that the state legislature take the following actions to achieve equity for school-children and taxpayers so that all children may have an equal educational opportunity:

- **Provide More Equal Access to State and Local Revenue** – All Wisconsin school children have an equal right to education, but a high level of dependence on local property wealth prevents equal access to state and local resources for many districts. In addition, all school districts should have an equal ability to provide buildings, equipment, supplies, staff and technology.

True tax base equalization in an equalized aid formula would mean that taxpayers anywhere in Wisconsin would pay identical tax rates for equal per pupil spending. The property tax revenue shortfall in lower tax base districts would be reimbursed directly through state aids. In such a system, any difference in tax rates would be the result of different spending levels, which reflects the willingness of local taxpayers. The result would be that every community would have equal access to state and local resources and the identical ability to sponsor educational programs.

While the higher level of state funding provided beginning in 1996-97 did increase equalization aid and reduce the property tax burden, some inequities also were increased. For example, an increase in the school levy tax credit and creation of the primary aid hold harmless disproportionately benefit wealthy, high-spending districts. All funds should be distributed to school districts through a formula which equalizes access to state and local resources.

- **Address Additional Student Needs** – The Supreme Court standard provides that the school finance system should take into account children with special needs, those who are economically disadvantaged, and those with limited English language skills.

This can best be accomplished through creation of a pupil weighting system which reflects the appropriate level of additional costs along with any increase or decrease in the target population.

This legislative proposal is our recommendation on how the standard can best be met::

1. **Repeal the primary aid hold harmless provision.**
2. **Eliminate special adjustment aid and distribute the funds as equalized aid.**
3. **Set the school district low revenue ceiling at the average per pupil shared cost in the previous year.**
4. **Set the secondary cost ceiling per member at the average per pupil shared cost in the previous year.**
5. **Repeal the school levy tax credit and transfer the funds to the equalized aid appropriation.**
6. **Eliminate most categorical aids and distribute the funds as equalized aid.**
7. **Shift the responsibility for all extraordinarily high special education costs to the state.**
8. **Transform the categorical aid for special education to an equalized aid weighting for all disabled students.**
9. **Transform the categorical aids to SAGE, P-5 and children at risk to an equalized aid weighting for all economically disadvantaged students.**
10. **Transform the categorical aid for bilingual-bicultural programs to an equalized aid weighting for all students with limited English language skills.**
11. **Provide a separate appropriation to fund charter schools.**

The following section describes these recommendations in detail.

# 2004 LEGISLATIVE PROPOSAL DETAILS

## **1. Repeal the primary aid hold harmless.**

As a replacement for minimum aid, the primary aid hold harmless provision effectively eliminates any spending disincentive for wealthy, high spending districts. The primary aid is held harmless from the effect of negative secondary or tertiary aid, and as a consequence, wealthy districts received disequalizing aid totaling \$14.9 million in 2002-03.

The primary aid hold harmless should be repealed beginning in 2005-06 so that negative secondary and tertiary aids are allowed to offset primary aid. This would allow the equalization aid formula to work without obstruction.

## **2. Eliminate special adjustment aid and distribute the funds as equalized aid.**

Special adjustment aid is gradually becoming a substitute for the primary aid hold harmless. As property values grow in relatively wealthy districts their primary aid payment would decline. Special adjustment aid maintains their state aid at 85% of the prior year level regardless of wealth. The funds to make this payment are taken from the equalization aid appropriation and otherwise would be distributed to poorer districts.

Special adjustment aid should be eliminated and these funds should be distributed as equalized aid beginning in 2005-06.

## **3. Set the school district low revenue ceiling at the average per pupil shared cost in the previous year.**

The low revenue ceiling is the amount of revenue (general aid and levy) per pupil a district is authorized to raise without being subjected to the revenue limits. In 2002-03 that ceiling was \$6900 per pupil and affected only 2 districts. The 2003-05 state budget increased the ceiling to \$7400 per pupil in 2003-04 where it is expected to affect 53 districts. It was further increased to \$7800 in 2004-05 where it is expected to affect 88 districts.

The low revenue ceiling should not be an absolute statutory amount, but should increase as conditions change. All districts should be allowed to raise an amount of revenue which would bring them into the

normal range among districts. The low revenue ceiling should be set at the statewide average per pupil shared cost in the previous year.

## **4. Set the secondary cost ceiling per member at the average per pupil shared cost in the previous year.**

The secondary cost ceiling is the boundary between costs that are aided at the secondary level and those aided at the tertiary level. When Wisconsin went to a two tier formula this cost ceiling (then, primary) was intended as a spending disincentive for spending beyond the normal range of up to 10% above the state average. Since then the concept of discouraging high spending has been lost and this ceiling is currently set at 90% of average school district shared costs per member in the previous year.

School districts which bring their spending level up to the revenue ceiling should be aided at the secondary level. Their efforts to come up to the prior year average of other districts should not be penalized by reducing their marginal aid to the tertiary level.

The secondary cost ceiling should be set at the same level as the revenue ceiling and both should be set at the average per pupil shared cost in the previous year.

## **5. Repeal the school levy tax credit and transfer the funds to the equalized aid appropriation.**

The distribution of the school levy tax credit does not consider the relative property wealth per pupil or need of school districts or individuals. It is not school aid and is not distributed to school districts. However, state statutes include the full amount of the credit in computing the state (2/3) share of partial school costs.

The entire appropriation should be eliminated and the full amount transferred to the equalized aid appropriation beginning in 2005-06. Payment dates should be advanced to July 1 and funds formerly paid as school levy credits in July and August would be considered as school aid payments made on June 30. This would allow the payment of the funds to be

shifted within a fiscal year without an additional appropriation. Beginning in 2005-06 the levy credit should be treated as though it was equalization aid so that negative secondary and tertiary aids are allowed to offset it.

## 6. Eliminate most categorical aids.

Many categorical aids are distributed with little or no regard for local wealth or overall need. Those categoricals that are intended to address special needs, limited English proficiency, poverty or children at risk of not graduating are inadequately funded. The current funding levels, when combined with the revenue limits often force school districts to choose between addressing the needs of these children or providing other regular education programs.

All categorical aids to school districts except school library aids, Technology for Educational Achievement in Wisconsin (TEACH) aid and grants, Head Start supplements, tuition and transportation for open enrollment, Alcohol and Other Drug Abuse (AODA) program revenue grants, school lunch grants, morning milk grants, and school breakfast grants should be distributed as equalized aid. Categorical aids for disabled students, SAGE, P-5, children at risk and bilingual-bicultural programs should be phased out over 3 years as pupil weightings for disabled students, economically disadvantaged students and students with limited English language skills are phased in. Redirecting those phased out categorical aids would better address the needs of student populations cited by the Wisconsin Supreme Court in the new equal educational opportunity standard. The amount of categorical aid eliminated each year must be considered as equalization aid in order to avoid levy reductions and revenue losses to school districts.

## 7. Shift the responsibility for all extraordinarily high special education costs to the state.

The Supreme Court has said that the legislature shall take special educational needs into account in fashioning a school finance system which provides an equal educational opportunity for all children. Current law provides categorical aid which covers less than 1/3 of special education costs. Remaining costs are covered by general school district revenues controlled by the revenue limits. Effectively, the unaided special education costs consume revenues

that otherwise would be allocated for regular education programs. In school districts with high special education costs, larger amounts of funding for general school operations are eroded and disparities in the regular education programs between high and low need districts are created.

There is no specific provision in the current law to address the additional cost of serving disabled children whose individual condition requires districts to allocate extraordinarily high amounts in order to serve those children. Accordingly it is proposed to shift the full responsibility for those extraordinarily high special education costs which exceed 250% of the state average per pupil cost to the state.

## 8. Create an equalized aid weighting for special education.

State assistance to cover the normally expected costs of providing special education and related services to children with disabilities should be sufficient to cover that cost and be equalized among districts. This can best be accomplished by creation of a three level equalized aid pupil weighting designed to reflect the level of service actually provided to a child. These weightings would increase the pupil count for aid allocation and revenue limit purposes; and would replace existing categorical aids for special education over a 3 year period beginning in 2005-06.

Specific weightings would be:

Level	Additional Pupil Weighting	Level of Services Provided
1	0.2	Special education services less than 21% of the day
2	0.5	Special education services between 21-60% of the day
3	1.5	Special education services more than 60% of the day
		Special education services which exceed 2.5 times the state average per pupil shared cost would be paid by the state

The service levels proposed are currently reported by school districts on IDEA Federal Student Data Reports (PI-2197) for children receiving services outside the regular class.

The state superintendent would be directed to annually review the appropriateness and effectiveness of these weightings.

#### **9. Create an equalized aid weighting for economically disadvantaged students.**

Research has long indicated that poverty is a significant predictor of lack of school success and some has shown poverty to be the most significant. Some school districts face educational overburdens because many of their students come from poverty backgrounds. Over the last 15 years, Wisconsin has created three statewide public school programs in an attempt to address low academic achievement in poor school districts.

First, characteristics of children at risk of not graduating were defined and identified. School districts were required to offer programs to serve these children; and now school districts are allowed to contract for those services. Throughout, the state has provided 10% additional state aid to help pay for the additional costs of these programs.

Next, the P-5 (preschool through grade five) grant program was created to provide additional funds for poor, low performing elementary schools and those with large differences in the academic performance among ethnic groups. Since it was created the P-5 appropriation has increased very little and the program serves a small number of urban schools.

Even the settlement of the Milwaukee desegregation lawsuit provided for additional programs in Milwaukee "...to correct the academic deficiencies of educationally and economically disadvantaged students...."

More recently, the state has created the SAGE (Scholastic Achievement Guarantee in Education) program which provides additional funds (up to \$2000 per pupil) for the purpose of reducing class size to 15 in grades K-3 in schools or school districts with concentrations of poverty. The \$2000 per pupil grant has never been increased.

And now, our Supreme Court has decided that economically disadvantaged children must be taken into account in our school finance system.

It is proposed to provide additional assistance to school districts serving poor children in a single comprehensive form throughout their school career, rather than continue the current narrowly focused programs. The form of this additional assistance would be a 20% pupil weighting for every child eligible for free or reduced lunch. This pupil weighting would increase the pupil count for both aid allocation and revenue limit purposes; and would replace existing categorical aid programs for economically disadvantaged and at risk children over a 3 year period beginning in 2005-06.

These funds must first be used to lower class size to 15 in grades K-3 in any school which is or would become eligible for SAGE funding (any 50% poverty school in 1998-99 or a 30% poverty school in a 50% poverty district). After that, the funds can be used for the following purposes:

- (1) reduce class size to 15 in grades K-3 in other schools
- (2) reduce class size to 25 in grades K-5
- (3) keep the school building open longer to provide after school programs and activities for students
- (4) make educational and recreational opportunities and community and social services available to all school district residents
- (5) provide a rigorous academic curriculum
- (6) provide staff development, peer review, mentoring and accountability
- (7) provide structured educational experiences for four-year-olds
- (8) establish a council composed of teachers, parents, school board members and community leaders
- (9) provide educational programs to raise student achievement based on proven effectiveness, including school-wide programs
- (10) or other programs to serve low income children approved by the school board.

Annually, each school district must report to the state superintendent on how it has used the additional grant funds. Biennially, the Legislative Audit Bureau shall review and report on the effectiveness of the use of the additional grant funds.

**10. Create an equalized aid weighting for students with limited English language skills.**

Current law provides categorical aid which covers less than one-fifth of the cost of providing bilingual/bicultural programs to children who are unable to do ordinary class work in English. However, this aid does not apply to all children. It only applies where there are 10 or more in K-3 and 20 or more in grades 4-12. Remaining costs are covered by general school district revenues. Effectively, unaided bilingual/bicultural program costs consume revenues that otherwise would be allocated for regular education programs. In school districts with large proportions of non-English speaking students, larger shares of funding for general school operations are eroded and disparities in the regular education programs among districts are created.

Pursuant to the Court's decision that children with limited English language skills be taken into account in our school finance system, it is proposed to provide additional assistance to cover the cost of providing bilingual/bicultural programs for children who are unable to do ordinary class work in English. This additional assistance would best be provided in the form of a 10% additional equalized pupil weighting. This weighting would increase the pupil count for aid allocation and revenue limit purposes; and would replace existing categorical aid for bilingual/bicultural programs over a 3 year period beginning in 2005-06.

Annually, each school district must report to the state superintendent on how it has used the additional grant funds. Biennially, the Legislative Audit Bureau shall review and report on the effectiveness of the use of the additional grant funds.

**11. Provide a separate appropriation to fund charter schools.**

Currently schools chartered by non public school district entities are funded by reducing equalization aid to public school districts. For 2003-04 the level of state aid to school districts in total is expected to be about \$30 per pupil below what it would have been without this aid reduction. School districts are effectively forced to make up the lost revenue with higher property taxes.

The state should fund the schools chartered by entities other than school districts with a separate appropriation rather than reducing aids to public schools.

***Each of these proposals is important on its own; however, AEF does not believe equity can be significantly improved unless all are considered and enacted.***

# AEF MEMBERS AND PLAINTIFFS

Districts indicated with + are AEF members. Districts indicated by \* are plaintiffs in the *Vincent vs. Voight* lawsuit.

*+ Abbotsford	*+ Colfax	+ Maple	*+ Seneca
*+ Algoma	*+ Cornell	* Marion	*+ Seymour
*+ Alma	* Cuba City	*+ Medford	+ Shawano/Gresham
* Alma Center/Lincoln	*+ De Soto	*+ Menomonie	*+ Shell Lake
+ Amery	*+ Denmark	*+ Milwaukee	*+ Siren
+ Arcadia	* Dodgegeland	*+ Mineral Point	*+ Somerset
*+ Ashland	* Dodgeville	+ Mishicot	* Southwestern
*+ Athens	*+ Durand	*+ Mondovi	*+ Spring Valley
*+ Augusta	*+ Elk Mound	* Mosinee	*+ St. Croix Central
* Baldwin/Woodville	* Elmwood	*+ Necedah	* Stratford
*+ Barron	*+ Fall Creek	*+ Neillsville	* Superior
* Bayfield	*+ Frederic	* New Richmond	* Thorp
* Beecher/Dunbar/ Pembine	+ Freedom	*+ North Crawford	*+ Tigerton
*+ Belmont	* Galesville/Ettrick/ Trempealeau	*+ Oconto	* Tomah
*+ Beloit	* Gilmanton	* Oconto Falls	* Valders
* Benton	+ Granton	*+ Osseo/Fairchild	* Viroqua
*+ Berlin	*+ Grantsburg	*+ Owen/Withee	* Wabeno
*+ Black Hawk	+ Green Bay	+ Pecatonica	*+ Washburn
*+ Black River Falls	*+ Greenwood	* Pepin	* Waupun
*+ Bloomer	* Holmen	* Phillips	*+ Wauzeka/Steuben
+ Bowler	* Horicon	+ Plum City	* West Salem
*+ Boyceville	* Howard/Suamico	+ Portage	+ Westby
*+ Cadott	* Kewaunee	* Poynette	*+ Weston
*+ Cameron	*+ Kickapoo	+ Prairie du Chien	*+ Weyerhaeuser
*+ Cashton	* La Crosse	* Prairie Farm	+ White Lake
* Chetek	*+ Lake Holcombe	*+ Pulaski	* Winter
*+ Clayton	*+ Laona	*+ Racine	+ Wittenberg/ Birnamwood
*+ Clear Lake	* Lena	*+ Reedsville	* Wonewoc/ Union Center
* Clintonville	+ Loyal	* Rib Lake	
* Cochrane/Fountain City	*+ Luck	*+ Rice Lake	
+ Colby	* Manitowoc	*+ Riverdale	
		*+ River Ridge	

# SCHOOL FUNDING BACKGROUND

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**1848** – The Wisconsin Constitution provides in Article X, Section 3, that “The legislature shall provide by law for the establishment of district schools, which shall be as nearly uniform as practicable....”

**1949** – State policy determines that “...the state must guarantee that a basic educational opportunity be available to each pupil...” and “...the state should be obligated to contribute to the educational program only if the school district provides a program which meets state standards.” The 1949 legislature provides for distribution of both equalization and “flat” aid. A district not eligible to receive equalization aid receives flat aid; i.e., a fixed amount per student.

**1973** – A complete tax base equalization program is enacted that provides a much higher appropriation of equalization aid to relieve local property taxes; discontinues general flat aids; institutes a power equalizing program providing for “negative aids”; and separates the shared cost into primary and secondary levels with a two-level system of state aid in which school costs which exceed the statutory ceiling of aidable costs are supported at a lower level of state aid to serve as a disincentive to high levels of spending.

**1976** – The Wisconsin Supreme Court declares recapture of local excess property taxes unconstitutional. Consequently, Wisconsin's general school aid equalization program is no longer considered a true power equalizing program because districts having the same cost per student are not required to levy the same tax rate.

**1992** – The Association for Equity in Funding (AEF) is formed to promote financial equity among public school districts on behalf of all pupils and property taxpayers. At the time, AEF members indicate that legal action should be pursued if significant progress toward financial equity is not accomplished during the 1993 legislative budget session.

**1993** – AEF proposes legislation to eliminate the disequalizing factors and provide financial equity for all children and property taxpayers. The 1993 legislature substantially ignores the AEF proposals and increases the disequalizing factors in two ways:

- First, it expands the special adjustment aid, broadens the eligibility requirements, and diverts funds from the equalized aid appropriation to pay for that expansion.
- In addition, it imposes per pupil revenue limits on school districts which allow higher spending districts to increase per pupil spending by a greater amount than lower spending districts.

As a result, despite a substantial increase in equalized aids, the actions of the 1993 legislature allow absolute spending disparities per pupil to widen.

**1994** – While continuing to work in the legislature, AEF retains legal counsel to study the feasibility of challenging the existing school finance system's constitutionality. That study indicates that such a suit probably would be successful.

**1995** – In January, AEF members vote unanimously to “prepare and organize” for litigation. In July, the 1995-97 state budget (Act 27) increases state aids and levy credits to 2/3 of partial school costs. The budget, however, does not adequately resolve several equity issues, such as the distribution of equalized aid, school levy credits and categorical aid; the impact of revenue limits; and the identification of student needs. On October 12, the class action suit, *Vincent vs. Voight*, challenging the constitutionality of Wisconsin's school finance system, is filed in Dane County Circuit Court.

**1996** – The Legislative Council of the state legislature creates a Special Committee on the School Aid Formula. The Committee is directed to study the state school aid formula and related aspects of school finance and recommend appropriate adjustments.

**1997** – Action both at the legislative and judicial levels.

After several hearings involving testimony from dozens of interested people, the Legislative Council Committee on the School Aid Formula recommends several actions, including phasing out the school levy tax credit over six years, establishing new aids for low-income students, and protecting districts with declining enrollment. None of these actions, however, were approved by the Legislature.

Dane County Circuit Judge Richard Callaway rules in favor of the state in *Vincent v. Voight*, finding the school funding system constitutional. In his comments, however, Judge Callaway says he recognizes that schools have “grave pressures” and notes, “the Court does not doubt that these problems have a serious adverse impact on the education received by many of Wisconsin’s children.”

The 104 districts file a petition with the Wisconsin Supreme Court requesting a reversal of Judge Callaway’s decision. The districts call attention to the July ruling, which said that unless there was “clear guidance from the Supreme Court, the legislature, potential litigants and the lower courts will be left groping through more unfocused litigation every time a new budget is created.” The petition to have the case heard by the state Supreme Court — which would have saved time and money for all involved — is denied as premature and appeal briefs are prepared.

**1998** – The Fourth District Court of Appeals hears oral arguments on *Vincent vs. Voight* and upholds the trial court decision. AEF is reorganized as an Unincorporated Association and appoints an executive director.

**1999** – The Wisconsin Supreme Court decides to review. *Vincent vs. Voight*. AEF expands its membership to individuals and additional school districts.

**2000** – The Wisconsin Supreme Court finds our school finance system to be constitutional. The Court also holds that “Wisconsin students have a fundamental right to an equal opportunity to a sound basic education...that will equip students for their roles as citizens and enable them to succeed economically and personally.” The Court specified courses to be provided and required that “...districts with disproportionate numbers of disabled students, economically disadvantaged students, and students with limited English language skills...” be taken into account.

**2001** – The biennial budget enacted for 2001-02 and 2002-03 ignores the new educational standard.

**2002** – The budget review bill enacted for 2002-03 ignores the new educational standard.

**2003** – The biennial budget enacted for 2003-05 increases the low revenue ceiling per pupil to \$7,400 in 2003-04 and \$7,800 in 2004-05.

The Governor creates a Task Force on Educational Excellence and gives it a broad charge including a review of how the state funds K-12 education.



**CAPITAL OUTLAY/DEBT SERVICE COSTS:**

Capital outlay means costs incurred for acquisition or improvement of fixed assets such as buildings or large equipment. Debt service means the annual payment(s) of principal and interest on capital costs funding by borrowing. State law limits the amount of outstanding debt to a percentage of school district property value so the amount is greater in the districts with greater property wealth.

**EQUALIZED TAX BASE:**

The total value of all taxable property in a district. Comparisons among districts are made by dividing that amount by the number of children enrolled in public schools in that district to obtain the tax base for each pupil.

**MILL RATE/TAX EFFORT:**

The real property tax rate charged to property owners for every \$1,000 worth of taxable property. A mill rate of 10 means that property owners are charged \$10 for every \$1,000 of assessed property value.

**NEGATIVE AID:**

As originally established, negative aid had two purposes: create a spending disincentive and provide greater equalization among districts.

In the 1995-96 two-tiered formula, a district that was eligible for primary aid (because its wealth or property value is less than the primary guarantee) may have experienced negative secondary aid because it spent above the primary cost ceiling and yet had a tax base per pupil above the secondary guarantee.

The result for such a district is that it sacrificed some of its primary aid to offset the excess ability or tax base it has at the secondary level. This is known as negative aid, an important concept in enhancing equalization within the current formula. While true tax base equalization is not accomplished with this mechanism, it does result in bringing about greater equity than would otherwise occur should excess ability to pay be totally ignored.

While negative aids occurred in the two-tiered formula, they also are present in the three-tier plan, but limited to the secondary level. Currently, negative aid is the reduction of equalized aid allocated to a district in the second tier of the formula because per pupil spending exceeds the limit for that tier and property wealth exceeds the guaranteed value in the third tier. As a result, it provides no spending disincentive for the wealthiest districts and the level of equalization is lowered.

If the new formula were to work as the previous one did, negative aids would also reduce primary aids for districts whose tax base exceeds the secondary guarantee. Since the three-tier formula contains a primary aid hold harmless provision, wealthier districts are protected from this reduction in primary aid through the cancellation of negative aids.

**PRIMARY AID HOLD HARMLESS PROVISION:**

Passed in 1995, the Hold Harmless provision protects the 34 wealthiest districts in the state from the long-standing spending disincentive, commonly known as negative aid. These districts are guaranteed aid from the first tier even if their wealth and spending exceed second and third tier levels or if there is a shortfall in state revenues. The secondary aid level, which reaches the majority of moderate wealth districts, can be reduced in case of revenue shortfalls. (See also Three-tier Equalization Aid)

**REFERENDUM:**

The referral to a public vote in a school district now required to raise taxes above the limits set by the state or to approve most school district borrowing.

**REVENUE LIMITS/SPENDING CAPS:**

Legislation passed in 1993 to restrict the amount of revenue a district may raise from state equalization aid and local property taxes. This effectively limits the amount a school district can spend. Caps were based on spending levels for each district in 1992-93.

**SCHOOL LEVY TAX CREDIT:**

The school levy tax credit is a below-the-line property tax relief program, not a state aid payment to a school district or to support the operation of public schools. The credit, which is shown on the individual property tax bill as a reduction from the gross tax liability of the individual taxpayer.

The amount of the school levy credit paid to a municipality is based on the municipality's share of a three-year average of the total statewide school levy. Each municipality's total credit is divided by the total value of the municipality's taxable property to determine a rate which is applied to the individual tax bill. The school levy credit applies to all taxable property.

**SHARED COST:**

The net cost of both the school district general fund and the school district debt service fund divided by the number of students.

**SPECIAL ADJUSTMENT AID:**

Special adjustment aid guarantees a school district that it will receive no less than 85% of the general state aid than it received the previous year. It continues to be a first draw on the equalized aid appropriation. The aid amounts to the difference between the actual amount of general aid to which the district is eligible and 85% of the amount it received in the previous year.

**STATE GENERAL AIDS:**

Funds generated by the state from sales, income and other general revenue sources provided to school districts to offset the local property tax burden for school spending. Originally, these funds were supposed to equalize the resources for districts with a tax base too small to support adequate school spending with a reasonable tax effort. General aids include equalization aid, special adjustment aid and Chapter 220 Integration Aid.

**THREE-TIER EQUALIZATION AID:**

Beginning in 1996-97 the school aid formula was changed to a three level system.

- Primary level: Now almost all districts receive general aid since the primary property level guarantee is \$1,930,000 per pupil, with aid proportionate to the difference between actual property wealth and \$1,930,000 for spending up to \$1000 per pupil. A district with property wealth of \$1 million per pupil receives \$482 in aid per pupil.
- Secondary level: The property wealth level of guarantee at the second tier is \$955,663 for spending from \$1,000 to \$7,230 per pupil. This level of aid impacts the majority of school districts. The guarantee amount at this tier can be reduced depending on availability of state revenue.
- Tertiary level: The third tier provides aid to districts with property wealth below \$353,152 for spending over \$7,230 per pupil.

**WEIGHTING:**

A means of assigning numerical value to the cost of assigning educational costs and aids for students with greater needs. For example, a regular student would be assigned a value of 1.0, a mildly disabled student might rate 1.2, a severely disabled student 2.5, etc.